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Foreign Economic Trends and Their Implications for the United States

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HAITI: KEY ECONOMIC INDICATORS

(All values are in USD million and represent period averages unless otherwise indicated)

Exchange rate: USD 1.00 = 5.00 gourdes

	FY86	FY87	FY88 (est.)
Income, Production and Employment			
GDP at current prices (USD billion)	2.243	2.247	2.439
Real GDP Growth (%)	0.6	0.5	0.3
Per capita GDP, current prices	380.00	372.00	370.00
Per capita GDP, real annual change (%)	-1.1	-1.2	-1.7
Industrial wage index (1981 = 100)	75.6	78.6	NA
--(1981 = 100)			
MONEY AND PRICES			
Money and quasi-money supply	567.0	626.7	695.6
Interest rates			
--1 year C.D. (percent)	11.0-14.11	10.0-17.0	7.0-11.0
Consumer price index (1980 = 100)	162.1	155.8	168.1
Gross official reserves			
(weeks of imports)	4.0	4.1	6.0
Gold & foreign exchange reserves			
-- (Net Int'l reserves			
-- of the banking system)	-60.0	-25.3	-14.8
BALANCE OF PAYMENTS AND TRADE			
External debt (% GDP)	31.9	33.8	33.0
Annual debt service			
(% of export goods & services)	15.3	21.4	17.2
Overall balance of payments	30.2	32.5	8.5
Balance of trade	-82.2	-114.2	-95.0
Exports, FOB	216.2	200.8	220.2
-- U.S. share (%)	77.0	NA	NA
Imports, CIF	298.4	315.0	315.2
-- U.S. share (%)	65.2	NA	NA

Minimum wage: US $3.00/day in Port au-Prince, US$2.64/day elsewhere.
Average monthly wages for selected occupations (1986 estimate in US$)

--Textiles	102.80	Machinery/Electrical	
--Apparel	145.20	appliances	123.40
--Shoes	73.40	Leather	136.00

All statistics are from IMF, World Bank, USAID, U.S. Department of State or U.S. Department of Commerce sources. Haitian fiscal year is October 1 to September 30.

SUMMARY

Haiti experienced a year of almost constant political change in 1988. After the process of democratic elections was derailed by violence on November 29, 1987, the Provisional Government Council (CNG) led by Lt. General Henri Namphy, which had replaced Jean-Claude Duvailer, announced a new election in January 1988. The election was considered deeply flawed by the United States and most other foreign countries. Leslie Manigat, the winner of the January 17, 1988 election, was inaugurated as President of Haiti on February 7, 1988. His government lasted a mere four months before being toppled by the Haitian military on June 19, 1988. The army Chief of Staff, Lt. General Henri Namphy, was again installed, this time as president. Namphy's regime was characterized by increasing right-wing violence and was deposed on September 17, 1988 when a second military coup resulted in the installation of Lt. General Prosper Avril as president of Haiti. Avril's is the fourth Haitian Government since the departure on February 7, 1986, of Jean Claude Duvalier. Following the cancellation of the November election, several donors, including the United States, the World Bank and the International Monetary Fund, suspended budgetary assistance to the Haitian Government. After the June coup, several donors cut back further on their assistance programs. Recently, some of these cuts have been partially restored. The decrease in financial support has already begun to create economic problems for the Haitian Government, including increased budget deficits, foreign exchange shortages and inflation. Last month there were unsuccessful attempts at deposing General Avril.

Marred by political uncertainty and the loss of assistance, the Haitian economy stagnated in 1988; GDP showed only a 0.3 percent real growth rate compared with 0.5 percent in 1987 and 0.6 percent in 1986. Without long-term stability and the rapid restoration of a large portion of the suspended foreign assistance, it is unlikely that the Haitian economy will show real growth in FY 1989. What lies beyond 1989 will depend on whether the Haitian Government can gain domestic and international confidence in the government, investment confidence in the private sector, and the level of foreign aid inflows that existed before November 29, 1987. The United States has conditioned the resumption of aid on progress by the Haitian Government in four areas: movement toward democratic elections, taking measures to prevent the use of Haiti as a transshipment point for drugs, observing human rights, and an economic program to benefit all Haitians. In December 1987, the U.S. Congress imposed restraints on USAID funds for Haiti, unless there were meaningful steps toward a return to democratic, civilian rule. Congress reiterated these constraints in the FY 1989 foreign assistance legislation and in separate resolutions passed by both Houses in October 1988. Thus, restoring nonhumanitarian aid to Haiti will require U.S. congressional action as well as administration willingness. The Avril government has publicly declared its determination to make progress in these areas and has taken some initial steps in this direction, albeit same challenges which faced Manigat and Namphy remain: a deteriorating economy, greatly reduced foreign aid, and political uncertainty.

Haiti enjoys a abundance of trainable labor eager to work; Haitian wage rates are among the lowest in the Caribbean. The new military government has indicated that the private sector will play a key role in Haiti's long-term economic development. If the Avril administration is able to sustain its commitment to development through private enterprise, maintain economic and political stability, satisfy the political requirements of the important bilateral donors, and if some suspended aid is restored, the private sector could again become a highly attractive area for investment. The Caribbean Basin Initiative (CBI), the Generalized System of Preferences (GSP), and U.S. 806 and 807 tariff provisions provide for preferential treatment for most of Haiti's assembled exports to the united States. Best prospects for U.S. exporters include equipment and raw materials for the electronics, garment, and sporting goods industries in the export assembly sector.

ECONOMIC CONDITIONS AND TRENDS

Geography and population: The Republic of Haiti is located 750 miles southeast of Miami, sharing the island of Hispoaniola with the Dominican Republic. About 6 million people live in an area the approximate size of Maryland. Although the climate is tropical, the primarily mountainous countryside suffers from large-scale deforestation and erosion. Haiti is the poorest country in the Western Hemisphere. Life expectancy is 54 years. GDP per capita is $370 and for an estimate 85 percent of the population, the per capita income is less than $150. Adult literacy is 23 percent, and only about 13 percent of the population has access to potable water. Malnutrition and infectious disease are widespread.

Government and Political Stability: A mixed civilian-military provisional government, the National Governing Council (CNG), replaced President for Life Jean-Claude Duvalier on February 7, 1986, and announced its intention to lead Haiti to democratic elections. The two-year transition period under the provisional CNG was characterized by recurrent outbreaks of popular CNG political measures. Despite these problems, movement toward free elections and the building of the structures of a democratic society continued throughout nearly the whole period. In the final weeks before the November 29, 1987 elections, however, right-wing elements carried out increasingly severe acts of violence, which on election day involved the participation of security force elements. The elections were cancelled by the Provisional Electoral Council rather than risk further bloodshed.

The CNG then set up another election which was held on January 17, 1988. It was marked by low turnout and was not viewed in Haiti or abroad as credible. The new president, Leslie Manigat, was inaugurated on February 7, 1988. In the second week of June, Manigat became embroiled in a dispute with the Haitian military that led to a military coup on June 19, 1988. The army Chief of Staff, Lt. General Henri Namphy (former head of the CNG) was installed as president. Manigat and some members of his government were sent

into exile. The new military government of General Namphy appointed a military cabinet, dissolved the constitutionally mandated legislature, and announced that it would rule by decree, rather than in the manner prescribed in the Haitian constitution of March 1987. In its last weeks, Namphy's regime was characterized by increasing right-wing violence. A second military coup on September 17, 1988, resulted in the installation of General Prosper Avril as president. Avril appointed a primarily civilian cabinet and expressed his intention to lead Haiti to democratic elections.

Infrastructure: Electricite d'Haiti (EDH) is a state-owned public utility. EDH generates power for Port-au-Prince from both oil-fired plants and hydroelectric facilities. Foreign exchange will remain scarce in 1989, and fuel shortages are possible. At 12-13.5 cents per kilowatt/hour, electricity costs are among the highest in the Caribbean for industrial users. Since most operations are labor intensive, however, reliability of supply is more important than cost. Most industrial plants rely on back-up generators to supply electricity during occasional blackouts.

Only 600 kilometers of Haiti's 3,000 kilometer road network are paved. Two-lane national highways link Port-au-Prince with Gonaives and Cap-Haitien to the north and with Jacmel and Les Cayes to the south. Four-wheel-drive vehicles are essential for off-highway travel. There is no regularly scheduled bus or truck transportation which meets U.S. standards either within Port-au-Prince or between Port-au-Prince and the country's interior. Gaily colored vehicles in various states of repair, called "tap-taps," ply the road with passengers and cargo. Transportation to and from work is a major problem for employees in Port-au-Prince: It is both expensive and unreliable.

Port-au-Prince International Airport is Haiti's only major airport offering regular international passenger and cargo services. Air passenger and cargo services within the country are limited to small aircraft charters. Eastern and Pan American Airlines offer daily nonstop service between Port-au-Prince and Miami; American Airlines services New York City each day. Antillian Airlines (ALM) also flies between both cities and Port-au-Prince. There are weekly Air France flights to Paris and Miami, and an Air Canada flight to Montreal. Several airlines provide service to various Caribbean destinations, including a daily Pan American flight to Santo Domingo and several flights per week to Puerto Rico. Haitian air cargo operators fly to the United States and Puerto Rico. Haitian air cargo operators fly to the United States and Puerto Rico from Port-au-Prince. Air freight is used by electronic assembly firms and agribusinesses to export goods with a value-to-weight ratio.

Port-au-Prince is also the site of the country's only seaport with container and roll-on/roll-off facilities. There are regular sailings between Port-au-Prince and Miami. Other ports in the Caribbean, North America, and Western Europe are served on an irregular basis. The Port-au-Prince port does not suffer from congestion. Port charges, however, are higher than in the United

States. Cap-Haitien on the north coast, with limited facilities, is an intermittent port of call for cruise ships and small cargo vessels.

Telephone service between Port-au-Prince and other Haitian locales is barely adequate. Direct dial capability exists between Haiti and the United States, Canada, Europe, Japan, and the rest of the Caribbean but can be slow. Mail delivery, especially for packages and valuables or to nonpostal box addresses, is unreliable. Overnight courier service for documents and small packages between Miami and Port-au-Prince is available.

Health and sanitation facilities at all socioeconomic levels are either limited in degree of sophistication or nonexistent. The vast majority of the population, including most of the relatively better-off factory employees in Port-au-Prince, does not have ready access to safe drinking water, adequate medical care, or sufficient nutritious food. There are essentially no unemployment or social assistance programs. Education is relatively expensive and thus out of reach for much of the population. The highest quality education is found either in missionary or privately run schools.

Labor: Trade unionism is in its infancy in Haiti. Labor relations under the Duvaliers were artificially calm and heavily favored management. Negotiations over the Caribbean Basin Initiative in 1983 prompted change: the Haitian Government, in order to secure privileges under the CBI, was obliged to concede certain worker rights, including the right to organize unions and to seek international affiliation.

Organized labor has had mixed results in the period following Duvalier's departure. In the first few months thereafter, there were many wildcat strikes as workers expressed frustrations with working conditions, wage levels, and political problems unrelated to the workplace. This phenomenon faded in late 1986 and 1987 as workers realized that some of their demands were unrealistic and as some employers reacted by moving operations from Haiti. Capitalizing on the political uncertainty, Haitian labor unions took a more aggressive stance in 1988. There was a marked increase in labor disputes. They primarily were resolved through negotiation between the labor federations and management. In a few cases, the Ministry of Social Affairs acted as arbitor but a better regulated labor-management climate awaits more active involvement by the government in enacting and enforcing a labor code which creates mechanisms of arbitration.

There are five main labor groups in Haiti. Accurate figures on membership levels are not available. Labor federations claim all employees of a unionized workplace as members, regardless of their actual affiliation. In addition, membership claims include peasant organizations outside of the Port-au-Prince area which are loose configurations of peasant cooperatives rather than labor unions.

The most moderate in tone is the Federation of Union Workers (FOS,

its initials in French). FOS membership is distributed among longshoremen, drivers, workers at the sugar and cement plants, and the assembly sector. FOS is affiliated with the International Confederation of Free Trade Unions and has received assistance from the AFL-CIO's overseas arm, the American Institute for Free Labor Development (AIFLD). In its efforts to encourage the growth of responsible labor unions through FOS, AIFLD receives the support of the U.S. Government.

Two other active labor federations are the Autonomous Body of Haitian Workers, affiliated with the Latin American Workers Organization (CATH/CLAT), and a rival splinter group, CATH. Membership in both bodies is less than FOS. Most CATH/CLAT membership is in the Port-au-Prince area, where the union has organized primarily in the assembly sector. CATH has concentrated on organizing workers in the assembly sector as well and is by far the most politically militant. The other two confederations of importance are the National Confederation of Haitian Teachers (CNEH) and the Independent General Organization of Haitian Workers (OGITH).

Agriculture: Haitian agriculture is primarily small-scale subsistence farming. About 65 percent of the people live on the land. Peasants rely on primitive techniques; draft animals are rare, and mechanical implements are practically unheard of for most farmers. Because of deforestation, soil erosion and the country's mountainous topography, only about 30 percent of Haiti's land is deemed arable. Even so, over 40 percent is actually under cultivation. There are few large-size landholdings, and plantation farming is not widely practiced in Haitian agriculture.

In 1987, a small increase in irrigated land and sufficient rainfall resulted in a small growth in production of most food crops. Although no accurate figures are yet available for agricultural production in 1988, the general trend is one of decline as an increasing population and continued erosion force more marginal land into production. In addition, contraband imports have grown in importance and were a chief cause of price declines for staple products in 1986-87. Attempts to control the entry of contraband products have been largely unsuccessful.

Corn remains the major subsistence crop for Haitian peasant farmers. In 1987 production levels at 198,000 metric tons showed continued growth. Sorghum is the second staple crop. Its situation tracks that of corn: a return to pre-drought yields while facing an overall decline in production, down at least 5 percent since 1970. The production of sorghum, the second staple crop, equalled 116,000 metric tons in 1985 (the latest figures available).

Rice is the third staple crop. Production increases, at an annual average of 2.2 percent since 1970, have matched the population growth rate. But the average yield per hectare at 1 ton per hectare even on irrigated land is relatively low. In 1986-87 rice prices underwent a remarkable decline, from a $45-$48 range in 1985 to a $18-20 range for 100 pound bags. The sharp increase in contraband rice from the United States since the fall of the Duvalier regime, rather than higher production levels, accounted for most of this

price decrease. The availability of cheaper imports in 1986-87 resulted in declining income for farmers. It is probable that over 150,000 tons of rice were exported from the United States to Haiti in 1988, most of it arriving via the contraband market.

Haiti produces no wheat, yet wheat flour is a major food item. During 1986-87, Haiti met its monthly wheat requirements of about 13,000 metric tons almost entirely from the concessional U.S. PL-480 program. Other suppliers have included Japan, France and West Germany. The state-owned flour mill, the Minoterie d'Haiti, produces an average of 8,000-10,000 one-hundred pound sacks of flour per day.

With the loss of PL-480 as a result of the U.S. nonhumanitarian aid suspension, the availability of foreign exchange for essential wheat purchases is a critical issue for the government. In 1988, Haiti received $19 million in credit guarantees from the Commodity Credit Corporation which it has already fully utilized. If the Central Bank is unable to supply the Minoterie with foreign exchange to purchase wheat on the world market, Minoterie will be forced to buy foreign exchange on the parallel market, causing a steep increase in the price of flour and animal feed.

An estimated 200,000 peasants grow coffee, Haiti's largest cash crop and agricultural export. Coffee exports were estimated to be worth about $39 million in 1988, or about 17.5 percent of Haiti's total exports. Coffee production and export have declined steadily in the last few years due to drought, a deteriation in yields, erosion, inappropriate farming methods, and the replacement of coffee producing areas of Haiti in the fall of 1988. While it is difficult to quantify the full impact at this point, the damage was substantial. A major coffee rust infestation in the northern growing areas will also contribute to a continuing decline in coffee production until effective measures are taken to control it.

The bright spot in Haitian agriculture for the last several years has been the export of fresh mangoes to the United States. Mango production provides income for about 200,000 peasants. In FY 1986 and FY 1987, these exports totaled 1.4 million cases (worth about $6 million wholesale) and 2 million cases (wholesale value of $11 million), respectively. Mango exports were down slightly in 1988 due to technical problems with the fruit fly control system (Haiti was the first country for which the new hot water-dip treatment for fruit flies was approved by the U.S. Department of Agriculture). Exports in FY 1988 totaled about 1.6 million cases, worth about $6.6 million wholesale. Mango exports are expected to reach around 2.5 million cases in 1989.

Investment: The new military government has not made any specific statements about foreign investment. It has stated, however, that it expects the private sector to play a key role in the economic development of Haiti. The United States is by far the largest foreign investor, with approximately $130 million invested in Haiti. Other countries with significant exposure in Haiti include

Canada, France, and West Germany. The Overseas Private Investment Corporation (OPIC), a U.S. Government agency, offers both political and foreign exchange convertibility risk insurance and financing assistance through direct loans and guarantees for private U.S. loans for firms investing in Haiti.

In January 1985, the Haitian Government announced a new progressive investment code. In a departure from past practices the new code eliminated the distinction between domestic and foreign investment. In addition it eased market entry for investors and, through fiscal incentives, encouraged domestic firms to export. The new code also established an appeals procedure for investor complaints and eliminated some protectionist barriers. The Avril government has indicated that both the investment and the commercial codes will be revised.

Finance: The Haitian Government has maintained an open foreign exchange system with the Haitian gourde fixed at five to one U.S. dollar since 1919. There are only limited official controls imposed on foreign exchange movements. In response primarily to excess Central Bank financing of public sector deficits, which created a foreign exchange shortage, an informal foreign exchange parallel market for dollars sprang up in 1981-82. Soon after the departure of Duvalier, the dollar premium on the parallel market rose to 20 percent. During mid-1986 through mid-1987, the dollar premium dropped to around 6 percent, due to prudent fiscal measures undertaken by the provisional government and a slowdown in demand for imports. Since the summer of 1987, a combination of political uncertainty, decreased exports, increased imports, and the contraband trade has created increased demand for scarcer dollars and a steady rise in the dollar premium rate on the parallel market.

The foreign exchange problem which existed long before the Avril government took power remains serious. Fiscal year 1988 was characterized by a marked lack of foreign exchange in commercial channels, in part due to the cutoff of U.S. nonhumanitarian aid, and this trend will continue. The dollar premium rate on the parallel market remained at 13-20 percent throughout this period. In the first quarter of FY 1989, the rate increased to 23-25 percent, hitting an all-time high of 30-33 percent in late November. Since then, it has remained fairly steady at 18-25 percent.

Further rate increases would increase the cost of imported goods (depressing income and consumption of nonessential goods) and could exacerbate international debt repayment problems (Haiti has already fallen into errears with the International Monetary Fund, IMF). The foreign exchange shortage does not greatly affect those sectors producing for export and in some cases provides an additional source of income as they sell their dollars on the parallel market for local currency. The parallel foreign exchange market adds to the cost of doing business for those firms that do not earn dollars through exports, but that need imports. The foreign exchange shortage also hampers the legally unrestricted repatriation of profits and payments of invoices to foreign suppliers again for those firms not earning foreign exchange themselves.

In order to qualify for IMF and World Bank funds, the provisional government made significant progress in fiscal and monetary policy reform. Under strong economic leadership, two inefficient government owned monopolies were closed, the Tax Code was rewritten, all export taxes were eliminated, import tariffs and quotas were lowered or eliminated, and government fiscal practices were improved. Some of these reforms caused the prices of a number of commodities and staples to decrease in 1986 and 1987. During the first three quarters of FY 1988, however, prices increased by 4.2 percent (compared to a 14 percent decrease over the same period in FY 1987) and food prices increased by 7.8 percent (compared to a 22 percent decrease in FY 1987).

During the first three months of FY 1989, some of these reforms fell by the wayside. Although the Avril government issued a balanced budget for FY 1989, after the first quarter it is already in deficit by at least $7 million. A continued deterioration of the economy could cause quantitative import restrictions, for example), as the reduction in foreign assistance to the government and domestic budgetary problems create a need for new revenue sources.

Government restrictions on interest rates for both deposits and loans have been loosened in order to encourage savings and introduce greater flexibility and competition in making loans. There are two U.S. banks operating in Haiti (Citibank and Bank of Boston) as well as one Canadian bank (Scotiabank) and one French bank (Banque Nationale de Paris). These banks offer a full range of services. The Haitian Government recently authorized private banks to accept foreign currency accounts of any amount.

Foreign Aid: After the departure of the Duvaliers in 1986, there was a massive influx of foreign assistance. The United States, Canada, Japan, and many Western European nations had for years provided only modest foreign assistance to Haiti as a sign of their displeasure with the Duvaliers. The change of government allowed the United States to reinstate and increase its aid program. The United States provided $87 million in FY 1986 and $102.63 million in FY 1987. Japan, Canada, France, the World Bank, the IDB and the U.N. also increased their foreign aid. Other donors included West Germany, Taiwan, the Netherlands, Switzerland, Italy, and various private voluntary and religious organizations.

After the November 29, 1987 elections were cancelled, all nonhumanitarian U.S. assistance was cut off. In FY 1988, the United States provided $31.1 million for project aid through nongovernmental organizations and $5.9 million for food distributed by voluntary agencies, primarily for school feeding programs. The United States intends to provide FY 1989 assistance of $24.5 million for similar humanitarian programs (child survival, population control, agricultural production, basic education, and private sector support), and $14.1 million for school and other food donation programs. The United States also has a modest anti-narcotics assistance program with the Haitian Government.

The cutoff of U.S. nonhumanitarian aid and the IMF and World Bank funds caused budgetary problems for the Manigat and Namphy governments. Several regressive sales taxes were introduced as a revenue raising mechanism. The CNG was very successful in following virtually all of the reform measures proposed by the IMF, the World Bank, and other donors, such as the United States, due in large part to direct budgetary assistance to the government. The new military government will have trouble conforming to these measures if the suspended assistance is not restored or if other sources of funds are not found. The government may be forced to take economic measures which will compound the budgetary problems and make the resumption of assistance more difficult for the donors.

Industry: Haiti's industrial sector may be disaggregated into two sectors: (1) those firms manufacturing for local consumption and (2) export assembly operations. The former sector has benefitted from a long history of protectionism designed to stimulate growth through import substitution. The 1985 investment code eliminated some of the more onerous protectionist measures. Since 1986, trade has been liberalized even further.

Some 140 export assembly enterprises account for about 30 percent of total manufacturing activity in Haiti. Beginning in the mid-1970s, Haiti's export industry was the fastest growing in the Caribbean. Because of relatively high international transport and utility costs and an almost complete lack of locally sourced inputs, Haitian export firms characteristically use imported raw materials in labor-intensive assembly processes for reexport, primarily to the United States. About 41,000-45,000 persons are now employed in export assembly operations.

A large proportion of assembly firms are shelter operations in which a Haitian businessperson provides workers, plant, and equipment, while the foreign buyer provides the raw materials and purchases all output. This arrangement is preferred by the majority of U.S. firms operating in Haiti because it removes some of the risks inherent in foreign investment for a U.S. investor. As the U.S. buyer gains experience and confidence, the next step may be a joint venture or direct investment in order to gain more control over production and quality.

Besides a lack of locally sourced raw materials, export assembly operations face a number of other obstacles. Haitian labor at the unskilled level is abundant and hard working. There is, however, a lack of skilled technical and lower-level management personnel. Some firms employ Dominican, Filipino, or Korean personnel to fill this gap. Another problem is the country's lack of reliable public services, including fire and police protection, medical care, transportation, power generation, and telephone service.

Haitian society is highly personalized. Friendship and social connections, therefore, may carry more weight than legal rights and responsibilities. Labor unrest and occasional outbursts of public disorder have hurt Haiti's previously strong attraction for labor

intensive investments. On balance, however, the assembly sector has continued to expand, particularly in the garment field.

Trade: Most of Haiti's trade is with the developed world. The United States has consistently remained Haiti's leading source of imports (about 65 percent in FY 1987) and market for exports (about 77 percent in FY 1987). In recent years, France and Italy have competed to become Haiti's second most important export market at around 5 percent each. West Germany, Belgium, Canada, and the Netherlands, in that order, are other leading markets for Haitian products. After the United States, most of Haiti's imports originate in Japan and Canada with the other above-mentioned European countries, the Caribbean, Taiwan, and Korean trailing.

Preliminary figures indicate that Haiti's exports in FY 1988 totaled $220.2 million, an increase of about $20 million over FY 1987 exports but roughly equal to FY 1986 exports. The most significant contribution to this total came from export assembly operations, amounting to around $143.4 million. Textiles account for the lion's portion of assembly sector exports, with electronics, toys, and sporting goods making up the rest. Haiti is the world's largest producer of baseballs. Softballs, fishing tackle and stuffed toys are also important exporters. The opportunity to expand textile quotas, together with increasing restraints on the Far East, has led to Haiti becoming an important exporter of children's clothing, sleepwear, dresses, and undergarments to the United States. Leather products are also assembled in Haiti for export. These include baseball and dress gloves, shoes and handbags.

Despite the importance of export assembly operations, Haiti remains largely an agrarian economy. Exports of agricultural products in FY 1987 were worth about $48 million, down from $72.1 million in FY 1986. Coffee exports are expected to have totaled around $39 million in FY 1988. Other valuable farm exports are cocoa, sugar, and essential oils used in the pharmaceutical and cosmetic industries. As noted, mango exports have been expanding rapidly in the last few years.

Haiti's imports officially totaled about $315.2 million in FY 1988, a slight increase from $315 million in FY 1987. It is difficult to estimate the actual total as many products arrive via the contraband trade and are not officially registered. The generally accepted estimate is that contraband imports amounted to about $100 million per year since 1986. The scarcity of natural resources, the poor soil quality, and the narrow, inefficient industrial base all require Haiti to import a wide variety of consumer goods, processed foodstuffs, raw materials for export assembly firms, and manufactured items. Manufactured items account for about 21 percent of Haiti's imports. With the exception of cement, most construction materials -- including hardware, plumbing articles, electrical supplies, and lumber -- are imported, mainly from the United States. All stationery, newsprint, and kraftboard for processing into cardboard are also imported. Virtually all raw materials used in the export assembly plants are imported from the parent firms or

suppliers in the United States and, to a lesser degree, Taiwan and Korea. These imports include electronic components, textiles, plastics and industrial machinery. Most medical supplies and pharmaceuticals are North American or European sourced. Most motor vehicles are of Japanese or European origin. Machinery and transport equipment account for another 22 percent of imports. Shell, Esso and Texaco supply all of Haiti's fuel and lubricants requirements, worth about $40 million in FY 1987. Foodstuffs (including beverages and tobacco) account for somewhat less than 24 percent of Haiti's imports, while chemical products and fats and oils each have about 12 percent of the market.

IMPLICATIONS FOR U.S. BUSINESS

Should political stability be maintained and should the export assembly industry regain its former dynamism, the demand for imports of machinery and raw components used in the manufacture of clothing, electronic components, sporting goods, and toys will be healthy. Exports of tropical fruits and vegetables should enhance the Haitian market for imported testing and packaging equipment and materials. A constraint to paying for expanded merchandise exports to Haiti will be Haiti's recurring dollar shortages, which will most likely grow more serious. Potential exporters to Haitian customers who do not generate hard currency should expect delays in receiving payment. The use of confirmed letters of credit is advisable. Concurrently, fluctuations of the value of the U.S. dollar have little effect on U.S. exports to Haiti, as most Haitian trade is already with the United States and the gourde is tied to the dollar.

The best long-term prospect for U.S. business is investment in export assembly operations. There are several long-standing reasons for investors to consider Haiti as a prime location for labor-intensive light manufacturing plants in the Caribbean. The first reason is Haiti's proximity to North America. Haiti is in the same time zone as New York and Miami. Haitian entrepreneurs and managers are quite familiar with the U.S. market. Many Haitians in business speak English: many of them were educated in the United States.

Haiti's primary natural resource is its people. Widely recognized as industrious, Haitians have been found by U.S. businesspeople to be easily trained in light manufacturing assembly operations. The proximity of Haiti to North America means that visiting businesspeople travel time is counted in hours rather than in days, and because the vast majority of raw material inputs are U.S. sourced, manufacturing investment in Haiti benefits U.S. balance of payments. Both the Haitian government and the Haitian people are generally well disposed to foreigners and foreign investment. Another attraction to investing in Haiti is the Caribbean Basin Initiative (CBI). Enacted in 1984, the CBI is a region-wide U.S. effort to bring economic progress to designated Central American and Caribbean nations through allowing one-way duty-free entry of must Caribbean goods to the United States.

In January 1987, a new textile agreement signed by Haiti and the United States came into effect. This agreement allows Haiti to export to the United States garments produced from U.S. form and cut cloth in amounts substantially greater than allowed to garments made from non-U.S. cloth under liberal guaranteed access levels (GALS) -- the so-called 807-A program. Although total manufacturing production in Haiti has decreased, manufactured exports increased by about $15 million in FY 1988 due to a continued expansion of apparel exports, in great part due to the new agreement. The Generalized System of Preferences (GSP) also allows preferential duty treatment for some garments, as well as other manufactured items from Haiti. Given Haiti's past success in attracting labor intensive industries such as garments and textiles, if economic and political stability is achieved, the export assembly sector could expand its existing employment and production levels.

The strength of the Haitian economy will depend upon whether or not the level of economic assistance is increased. A surge of import demand could occur if foreign assistance were to rise to 1987 levels. In the meantime, sales of goods related to export assembly operations should continue to find a market in Haiti, provided demand in the United States for the export sector's finished products remains strong and relative political calm prevails. The best prospects for sales include inputs for the assembly sector: textiles, electronic components, and packaging materials. The market for cut leather has contracted greatly due to increased competition from the Far East. Other prospects include construction materials: plumbing fixtures, hardware, and lumber. Imports for domestic consumptions will be affected by the shortage of foreign exchange. Proximity to the United States, duty-free entry to the United States under CBI and GSP, the 807-A program and dexterous, low-cost unskilled labor all remain strong selling points for labor-intensive assembly operations in Haiti.

FURTHER INFORMATION

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